

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 FEA-01 AGRE-00 CEA-01

CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05

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FM USMISSION GENEVA

TO SECSTATE WASHDC 7311

INFO AMEMBASSY BELGRADE

AMEMBASSY BERLIN

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY HELSINKI

AMEMBASSY MOSCOW

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY STOCKHOLM

AMEMBASSY VIENNA

AMEMBASSY WARSAW

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C O N F I D E N T I A L SECTION 1 OF 2 GENEVA 3690

E.O. 11652: XGDS-1

TAGS: GATT, ETRD, EEWT

SUBJECT: GATT POLICIES TOWARD EASTERN EUROPE

1. BEGIN SUMMARY. GATT TREATMENT OF EAST EUROPEAN COUNTRIES CONTINUES TO STAGNATE OVER THE QUESTION OF HOW TO IMPOSE MEANINGFUL OBLIGATIONS ON COUNTRIES WITH CENTRALLY PLANNED, STATE TRADING ECONOMIES. MEANWHILE, GATT EXAMINATIONS ARE NOT ABLE TO PENETRATE REALLY DEEPLY INTO THE CONDUCT OF EAST EUROPEAN COUNTRIES' TRADE PLOICIES. THE WEST IS
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NOT NOW IN A POSITION TO RECEIVE SIGNIFICANTLY EXPANDED IMPORTS FROM EAST EUROPEAN COUNTRIES, AND DESPITE HARD-CURRENCY SHORTAGE AND INDEBTEDNESS THE EAST DOES NOT YET APPEAR TO BE IN A POSITION TO COMPETE AT NON-DUMPING PRICES, EXCEPT IN ISOLATED PRODUCTS. BARRING DRAMATIC NEW DEVELOPMENTS, WE SHOULD INTENSIFY OUR EXAMINATION OF EE TRADE SYSTEMS AND REQUIRE BOTH THE THOROUGH PUB-

LICATION OF TRADE REGULATIONS OF EAST EUROPEAN CP'S AND
A DEMONSTRATION THAT THE REGIMES OPERATE IN THE LIBERAL
WAY EAST EUROPEAN GOVERNMENTS SAY THEY EAA END SUMMARY.

2. SINCE GATT MEETINGS INVOLVING EAST EUROPEAN COUNTRIES
TAKE PLACE IN SEVERAL SEPARATE CONTEXTS AND INVOLVE MANY
DIFFERENT COUNTRIES, WE HAVE GAINED WHAT WE FEEL MAY BE
A UNIQUE PERSPECTIVE HERE IN THE GENEVA GATT MEETINGS,
AND OUR OVERALL ASSESSMENT MAY BE OF USE TO WASHINGTON.
THERE HAS BEEN A STREAM OF GATT WORKING PARTIES (A)
INVOLVING THE REVIEW OF ACCESSION AGREEMENTS, INCLUDING
TRADE, WITH VARIOUS EAST EUROPEAN COUNTRIES, (B) ON THE
NUMEROUS DISCRIMINATORY AGREEMENTS BETWEEN FINLAND AND
EE COUNTRIES, AND (C) ON THE EAST EUROPEAN CUSTOMS
TARIFFS. IN ALL OF THESE, THE PERHAPS RHETORICAL QUESTION
OF HOW TO IMPOSE MEANINGFUL GATT OBLIGATIONS ON STATE
TRADING COUNTRIES WITH CENTRALLY PLANNED ECONOMIES (AND
WITH CERTAIN LIMITS ON THE PUBLIC AVAILABILITY OF
INFORMATION) HAS PROVED A STICKING POINT.

3. GATT MEMBERS INCLUDE HUNGARY, POLAND, ROMANIA (ALL
OF WHICH HAVE SPECIAL ACCESSION PROTOCOLS), CZECHOSLOVAKIA
(AT EARLY MEMBER OF THE GATT BEFORE THE 1948 POLITICAL
CHANGES), AND YUGOSLAVIA. THE LATTER IS GENERALLY NOT
TREATED WITHIN THE EAST EUROPEAN CONTEXT. BULGARIA
HAS OBSERVER STATUS IN THE GATT. THE USSR IS NOT
A MEMBER. THE U.S. CURRENTLY EXTENDS MFN TREATMENT ONLY
TO POLAND AND ROMANIA (AND OF COURSE YUGOSLAVIA), BUT
WE INSIST ON OUR RIGHT TO PARTICIPATE IN ALL WORKING
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PARTIES.

4. THE LIBERALITY AND OPENNESS OF EE TRADING REGIMES
SEEMS TO VARY, YET IT HAS BEEN DIFFICULT, BEYOND THE
YUGOSLAVIA CASE, TO IDENTIFY SUFFICIENT DIFFERENCES TO
JUSTIFY REALLY DISTINCT TREATMENT IN THE GATT. SOME
LESSER DIFFERENTIATION CAN BE NOTED FOR HUNGARY: THE
PROTOCOL OF ACCESSION BOTH RECOGNIZES THE TARIFF AND
GIVES CERTAIN RIGHTS TO DISCRIMINATE IN FAVOR OF CEMA
COUNTRIES (BUT CONFUSINGLY, NOT TO DISCRIMINATE AGAINST
OTHER COUNTRIES. EE COUNTRIES TEND TO ATTEND ALL WORKING
PARTIES INVOLVING OTHER EE COUNTRIES AND TO REINFORCE
EACH OTHER AS A BLOCK (LESS TRUE FOR ROMANIA) ON SUCH
BASIC POINTS AS WHETHER TARIFFS ARE INTENDED TO BE THE
PRIME TRADE POLICY INSTRUMENTS IN GATT. ALSO, THEY
CLAIM TO BE CP'S JUST LIKE EVERYONE ELSE, AND IMMEDIATELY
CLAIM DISCRIMINATION WHENEVER OTHERS ADOPT SPECIAL
STANDARDS WHEN DISCUSSING THEIR DIFFERENT ECONOMIC
SYSTEMS IN THE GATT CONTEXT.

5. THE QUESTION OF THE INTRODUCTION OF TARIFFS IS OF KEY IMPORTANCE. ROMANIA HAS RECENTLY INTRODUCED A TARIFF, THE GATT EXAMINATION OF WHICH HAS STAGNATED; POLAND'S NEW TARIFF MAY SOON BE EXAMINED IN THE GATT; CZECHOSLOVAKIA (75 PRAGUE 175) AND HUNGARY ALSO MAINTAIN CUSTOMS TARIFFS. THE LATTER HAS OFTEN REPEATED THAT THE U.S. GETS "COLUMN TWO" TREATMENT IN RESPONSE TO OUR LACK OF MFN TREATMENT FOR HUNGAR. THE EFFECTIVENESS OF SUCH TARIFFS BEARS CAREFUL WATCHING: IF TARIFFS ARE MERELY IMPOSED ON TOP OF THE EXISTING REGULATIONS AND ONGOING BEHIND-THE-SCENES STEERING OF IMPORT POLICY, THEN WE WOULD NOT WANT TO GIVE CREDIT, RECOGNITION, OR TRADE CONCESSIONS IN RETURN FOR EE TARIFF REDUCTIONS. CONVERSELY, WE WOULD NOT WANT TO DISCOURAGE EE COUNTRIES FROM SLOWLY LIBERALIZING -- IF THAT LIBERALIZATION HAS TRUE MEANING.

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6. AN EXAMPLE OF THE DILEMMA IS THE QUESTION NOW FACING US ON THE POLISH TARIFF. WE MUST ASK WHAT VALUE TO PLACE ON CONCESSIONS IN A MODERATE-LEVEL CUSTOMS TARIFF. SOME U.S. BUSINESSMEN DOING BUSINESS IN POLAND WITH WHOM WE HAVE DISCUSSED THE QUESTION NOTE THAT THE TARIFF IS COLLECTABLE IN ZLOTYS WHICH ARE ULTIMATELY PAYABLE TO THE FINANCE MINISTRY AND WHICH ARE THUS PRESUMABLY (NOT BEING HARD CURRENCY) MORE EASILY AVAILABLE AT THE PRINTING PRESS. WE COULD NOT FULLY EVALUATE WHETHER THE POLISH MONETARY SYSTEM INDEED OPERATES ON SUCH A LOOSE BASIS, BUT AN EQUALLY IMPORTANT CONSIDERATION IS THE IMPACT OF CURRENCY RATIONING. HARD CURRENCY IN POLAND SEEMS RATIONED FOR FOOD AND HIGH TECHNOLOGY PURCHASES SUCH AS SEMI-CONDUCTORS, AND THERE IS THE ADDED HRD CURRENCY RATIONING IMPONDERABLE OF SOVIET POLITICAL MOTIVES TO REDUCE EE COUNTRY INTEGRATION WITH THE WEST UNLESS A SOVIET POLITICAL GAIN CAN BE SEEN TO DERIVE. THE EXISTENCE OF THE POLISH TARIFF DOES NOT SEEM TO BE COMPLETELY WITHOUT MEANING. A EUROPEAN COMMUNITY REP (KAWAN) REPORED TO US THAT POLES TOLD HIM USSR WAS REFUSING TO ALLOW ITS EXPORTS TO BE SUBJECT TO TARIFF, AND THIS HAD BEEN ONE REASON FOR PAST POLISH DELAYS IN PRESENTING TARIFF FOR GATT EXAMINATION.

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C O N F I D E N T I A L SECTION 2 OF 2 GENEVA 3690

7. IN THESE GATT WORKING PARTIES, MEMBERS OFTEN DEBATE THE BASIC, INTENDED ROLE OF TARIFFS IN THE GATT. A TYPICAL EXCHANGE WOULD INVOLVE: (A) EE COUNTRIES STARTING THEIR VARIOUS "NONTARIFF" MECHANISMS AND EXCHANGE-RATE DEVICES ARE JUSTIFIABLE BECAUSE THE GATT CONTAINS VOLUMINOUS REFERENCE TO EXCHANGE CONTROLS, NONTARIFF BARRIERS, AND OTHER DEVICES, (B) COUNTERED BY WESTERN INSISTENCE THAT THE PRIME THRUST OF THE GATT IS TOWARD THE ELIMINATION OF PRECISELY SUCH DEVICES AND THE PLACING OF EMPHASIS ON CUSTOMS TARIFFS.

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8. OUR SUM EXPERIENCE FROM RECENT GATT WORKING PARTIES -- PERHAPS IN PART REFLECTING THE CONSEQUENCES OF THE EE HARD-CURRENCY SHORTAGES -- IS THAT NO EE COUNTRY IS REALLY EXPLAINING THE DECISION-MAKING PROCESS BEHIND THE OPERATION OF ITS TRADE POLICIES, FOR EXAMPLE, SEE

76 GENEVA 3383 ON CZECHOSLOVAKIA, 76 GENEVA 8264 ON BULGARIA, AND GENEVA 2293 ON POLAND. THIS RESERVATION APPLIES BOTH WITH RESPECT TO IMPORT PURCHASE DECISIONS AND EXPORT PRICING. WE RECOGNIZE THERE MAY BE A CERTAIN ELEMENT OF DIFFERING APPROACHES AND INTELLECTUAL CONCEPTS; TO A DEGREE MARKET AND CENTRALLY PLANNED COUNTRIES MAY BE TALKING PAST EACH OTHER. HOWEVER, THERE IS A CERTAIN TONGUE-IN-CHEEK ATMOSPHERE IN SOME WP MEETING ROOMS WHEN EAST EUROPEAN COUNTRIES MAINTAIN THAT THEIR FOREIGN TRADE ORGANIZATIONS ARE BLISSFULLY FREE TO BUY AND SELL LIKE COMPANIES IN THE WEST. A RECENT NADIR WAS REACHED IN THE FINLAND-GDR WORKING PARTY WHEN FINLAND (SPEAKING FOR AN ABSENT GDR) TOLD THE WP THAT THE GDR HAD "NO QUANTITATIVE RESTRICTIONS OR OTHER RESTRICTIVE REGULATIONS OF COMMERCE" (GENEVA 1057). WE WERE FORCED TO SAY WE SIMPLY DID NOT BELIEVE IT.

9. THE WEST AT THIS TIME IS NOT PREPARED TO ABSORB SIGNIFICANTLY GREATER QUANTITIES OF IMPORTS FROM EASTERN EUROPE, GIVEN CONTINUED UNEMPLOYMENT, PROTECTIONIST PRESSURES, STAGNATING ECONOMIES, AND THE OIL BURDEN.

YET EASTERN EUROPE'S WELL-KNOWN INDEBTEDNESS TO THE WEST AND CHRONIC HARD-CURRENCY SHORTAGES CREATE AN INTENSE PRESSURE TO EXPAND EXPORTS. AT PRESENT, EE COUNTRIES DO NOT SEEM IN A POSITION TO COMPETE AT NON-DUMPING PRICES OR SUPPLY VERY MANY TRULY QUALITY GOODS AT ANY PRICE. PERHAPS SOME LATER ECONOMIC REVIVAL IN THE WEST, FOLLOWED BY GROWING EE EXPORTS, INCLUDING HOPEFULLY SOME GOODS THAT COMPETE ON OTHER THAN A PRICE BASIS, CAN PROVIDE

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THE OPPORTUNITY TO EXPLORE IN THE GATT FOR BETTER SIGNS OF EE ECONOMIC OPENNESS IN A MORE RELAXED SETTING. BARRING DRAMATIC DEVELOPMENTS SUCH AS AN ECONOMIC REVIVAL, OR MAJOR CHANGES IN THE POLITICAL CLIMATE, OR AN MTN BREAKTHROUGH IN THE AREA OF STATE TRADING, FEEL U.S. POLICIES SHOULD CONCENTRATE ON THE FOLLOWING LIMITED BUT POTENTIALLY IMPORTANT THINGS:

A. PRESS EE COUNTRIES HARDER TO PUBLISH THE FULL TEXTS OF ALL THEIR FOREIGN TRADE REGULATIONS (REINFORCING WORK DONE IN THE ECE) SO WE CAN (1) EXAMINE THEM MORE THAN SUPERFICIALLY AND (2) CHECK THESE PUBLISHED CLAIMS AGAINST ACTUAL FEEDBACK FROM U.S. AND OTHER WESTERN EXPORTERS' EXPERIENCES IN THE SUCCEEDING MONTHS AND YEARS. WE ARE ON SAFE GROUND HERE: GATT ARTICLE X CLEARLY REQUIRES THAT FOREIGN TRADE REGULATIONS BE PUBLISHED. THIS APPROACH, WE FEEL, IS CENTRAL TO THE ENTIRE QUESTION OF EE PARTICIPATION IN THE GATT. IT IS PERHAPS

OUR ONLY CURRENT DEVICE FOR DISCOURAGING MISLEADING EE STATEMENTS WHICH GLIBLY CLAIM A LIBERALITY WHICH CANNOT BE SHOWN TO BE THERE. AND IT COULD BE USEFUL IN ENCOURAGING ECONOMICALLY MODERATE ELEMENTS IN EE COUNTRIES BY STRENGTHENING THEIR HAND AT HOME. (IN MAINTAINING OUR FIRM "SHOW ME" INSISTENCE IN THE GATT WP'S, WE SHOULD NONETHELESS AVOID THE OVERLY PROVOCATIVE AND AGGRAVATING TONE SO OFTEN USED BY EC'S KAWAN.)

B. RESIST THE CONSTANT EE ASSERTIONS THAT GATT WAS DEvised TO OPERATE IN A CONTEXT OF EXCHANGE CONTROLS AND QR'S BY RESPONDING THAT THE CLEAR PURPOSE OF THE GATT -- AS SHOULD BE EVIDENT TO ANY READER -- WAS TO GET RID OF THESE DEVICES AND MAKE THE CUSTOMS TARIFF THE MOST IMPORTANT INSTRUMENT OF TRADE POLICY. (NOTE: U.S. ACQUIESCENCE TO CARTEL OR MARKET-SHARING ARRANGMENTS IN ANY FORUM WOULD TEND TO STRENGTHEN THE EE GATT DEFENSES OF THEIR OWN CURRENT ENGINEERED TRADE CONFIDENTIAL

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POLICIES. WHILE WE DO NOT WISH TO DEBATE THE MERITS OF SUCH ISSUES HERE, WE BELIEVE WASHINGTON SHOULD BEAR THIS POTENTIALLY IMPORTANT IMPLICATION CAREFULLY IN MIND.)

C. ALWAYS REMEMBER THAT GATT PRECEDENTS SET FOR EE COUNTRIES COULD APPLY TO USSR IF, AT SOME FUTURE TIME, LATTER SHOULD DECIDE TO SEEK GATT MEMBERSHIP.

D. PURSUE ANTI-DUMPING AND COUNTERVAILING DUTY ISSUES INVOLVING ALL EE COUNTRIES ALONG THE SAME PRAGMATIC LINES INDICATED IN STATE 40671 RE POLAND.

E. AND WE SHOULD CONTINUE:

(1) THE CURRENT POLICY OF SHARPLY DISCOURAGING THE SIGNING OF YET ANOTHER DISCRIMINATORY TRADE AGREEMENTS BETWEEN EE AND WESTERN COUNTRIES (76 GENEVA 9406).

(2) TO GIVE MILD SUPPORT TO EE EFFORTS TO ELIMINATE EXISTING EC AND NORDIC DISCRIMINATORY QR'S AGAINST EE GATT MEMBERS. WE SHOULD NOTE THAT THE ACCESSION PROTOCOLS HOLD ADEQUATE SAFEGUARD PROVISIONS (POLAND -- BISD 15TH SUPPLEMENT, PAGES 48-49; ROMANIA -- 185# SUPPLEMENT, PAGE 7; HUNGARY -- 20TH SUPPLEMENT, PAGES 4-5) AND THAT OTHER PROVISIONS OF GATT, SUCH AS ARTICLES VI AND XIX AND THE MFA, RENDER SUCH DISCRIMINATION UNNECESSARY. SORENSON

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